

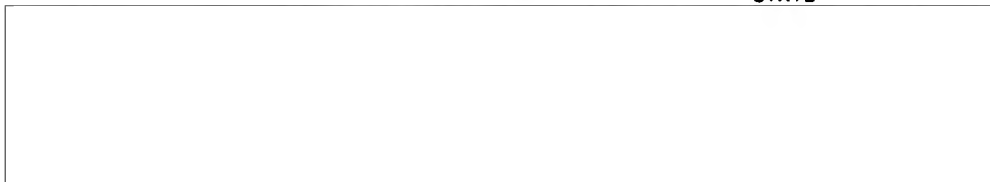
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E.O. 12356: DECL: OADR
TAGS: EPET, EWT, OPRC, PM
SUBJECT: GUIDANCE ON NORTH SLOPE OIL

REF: A) PANAMA 02005 B) AUDROUE/BECKER 2/23 TELCON

1. C - ENTIRE TEXT

2. YOU MAY TELL THE PANAMANIAN THAT NOTWITHSTANDING THE ADMINISTRATION'S POSITION ON DEREGULATION, IT IS HIGHLY UNLIKELY (THOUGH NOT IMPOSSIBLE) THAT NORTH SLOPE OIL WILL BE DEREGULATED BY THE COMING EXPORT ADMINISTRATION ACT, OR DURING THE COMING YEAR. BACKGROUND INFORMATION WHICH FOLLOWS MAY ALSO BE DRAWN UPON AT YOUR DISCRETION...

3. AS DISCUSSED IN REFTELCON B, FATE OF NORTH SLOPE OIL IS BOUND UP WITH PASSAGE OF NEW EXPORT ADMINISTRATION ACT. WHILE ONE VERSION HAS PASSED IN THE HOUSE, ANOTHER AND DIFFERENT ONE HAS JUST COME TO THE SENATE FLOOR. OMB (AND STATE) SUPPORTS THE SENATE VERSION, WHICH IS THOUGHT TO HAVE A 50/50 CHANCE OF PASSING WEEK OF 2/27. THEREAFTER IT WILL GO TO CONFERENCE COMMITTEE FOR RECONCILIATION, WHICH WILL TAKE A MINIMUM OF TWO WEEKS.

4. AT PRESENT, ~~NEITHER HOUSE NOR SENATE BILL DEREGULATES~~ ALASKAN OIL. HOWEVER, AMONG THE 40-ODD AMENDMENTS PENDING IN ~~THE SENATE IS ONE~~ AUTHORED BY SENATOR MURKOWSKI TO PERMIT EXPORT OF NORTH SLOPE OIL. OUR BEST GUESS IS THAT HIS AMENDMENT PROBABLY WILL NOT PASS, SINCE IT HAS NO ADMINISTRATION SUPPORT.

5. IN HIS 2/22 PRESS CONFERENCE, PRESIDENT REAGAN WAS ASKED ABOUT POSSIBILITY OF LIFTING THE BAN ON EXPORT OF ALASKAN OIL AND WHETHER HE WOULD CAMPAIGN AGGRESSIVELY FOR THIS. IN HIS ANSWER, THE PRESIDENT STRESSED THAT WHILE HE SHARED THE VIEW THAT SUCH EXPORT WOULD BE AN ASSET TO THE US, THE ADMINISTRATION WAS STILL STUDYING THE ISSUE. RESPONDING TO QUESTION ABOUT OPPOSITION BY THE MARITIME UNIONS TO DEREGULATION, HE EMPHASIZED THE IMPORTANCE OF US MERCHANT MARINE TO THE NATIONAL DEFENSE AND AS ADJUNCT TO THE NAVY.

6. NORTH SLOPE OIL IS CURRENTLY RESERVED FOR THE U.S. UNDER SHORT SUPPLY CONTROL REGULATIONS MANDATED IN SECTION 7 OF THE 1979 EXPORT ADMINISTRATION ACT. ONE REASON STATE OPPOSES THE MURKOWSKI/STEPHENS BILL IS THAT WE DO NOT BELIEVE IT WOULD BE HELPFUL TO RESTRICT THE

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EXPORT OF OIL TO CONTRACTS WHICH MAY BE TERMINATED WHENEVER AN OIL SUPPLY DISRUPTION IS THREATENED OR OCCURS (POSSIBILITY OF SUCH TERMINATION IS STIPULATED IN THE AMENDMENT). SECONDLY, THE BILL REQUIRES THAT OIL BE TRANSPORTED ON US-BUILT AND -DOCUMENTED VESSELS, AND SUCH A US FLAG CARRIAGE REQUIREMENT WOULD PUT THE US IN VIOLATION OF TREATY COMMITMENTS. IN ADDITION, PROPOSED AMENDMENTS WOULD CONTRADICT A US AND OECD POLICY WHICH OPPOSES EXPANSION OF CARGO RESERVATION AND ALLOCATION REGIMES TO THE PRESENT OPEN BULK CARGO MARKET, THUS CAUSING PROBLEMS WITH OUR ALLIES.

7. AMENDMENT WOULD ALSO ADVERSELY AFFECT ADMINISTRATION COMMITMENT TO NEGOTIATED LIBERALIZED WORLDWIDE REGIME FOR TRADE IN SERVICES. FINALLY, COST OF CARRIAGE ON US FLAG SHIPS WOULD LIKELY EXCEED COST OF COMPETING SHIPPING SERVICES AND THUS REDUCE COMPETITIVENESS OF POTENTIAL US CRUDE OIL EXPORTS.

8. AS MAY BE GATHERED FROM FOREGOING, GUIDANCE ON NORTH SLOPE OIL AND LARGER EAA ISSUE IS COMPLEX. THIS IS DUE PARTLY TO DIVERSITY OF THE TWO VERSIONS AND THEIR NUMEROUS POTENTIAL AMENDMENTS, PARTLY TO UNCERTAINTY AS TO PRECISELY HOW BILL WILL BE AMENDED AND FINALLY, TO SOME LINGERING DOUBTS AS TO WHETHER THE BILL WILL IN FACT

BE PASSED.

9. PRESENT EAA EXPIRES FEBRUARY 29. IT MAY BE EXTENDED BY CONGRESS OR BY PRESIDENT UNDER INTERNATIONAL ECONOMIC EMERGENCY POWERS ACT.

10. WE ANTICIPATE AT THIS TIME THAT A NEW BILL WILL IN FACT BE PASSED, PERHAPS AS SOON AS LATE MARCH. IT IS FAR LESS LIKELY THAT THE PROPOSED AMENDMENT DEALING WITH NORTH SLOPE OIL WILL PASS, PARTICULARLY IN THE POLITICAL ATMOSPHERE OF A US ELECTION YEAR. SHULTZ
END OF MESSAGE

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